

1973 annual report Homco Industries Ltd.



Homco Industries Ltd.

Directors

CARL DAY JOHNSON
President of the Company

WILLIAM HUNTER POWELL
Company Director

PERCY HOWARD DAVIS
*President of Percy H. Davis Limited,
Customs Brokers*

GEORGE DUNCAN HILL
*Senior Partner, Messrs. Hill, Klassen,
McLellan & Ball, Barristers and Solicitors*

DONALD ALEX ROSS, C.A.
*President, Farmers & Merchants
Trust Co. Ltd.*

JOHN ALEXANDER McCLEERY, F.C.A.
*President, J. A. McCleery Limited,
Financial Consultants*

ABRAHAM SALEM BERDAY
*Vice-President
Communications Group,
Agra Industries Limited*

Officers

CARL DAY JOHNSON
President and Managing Director

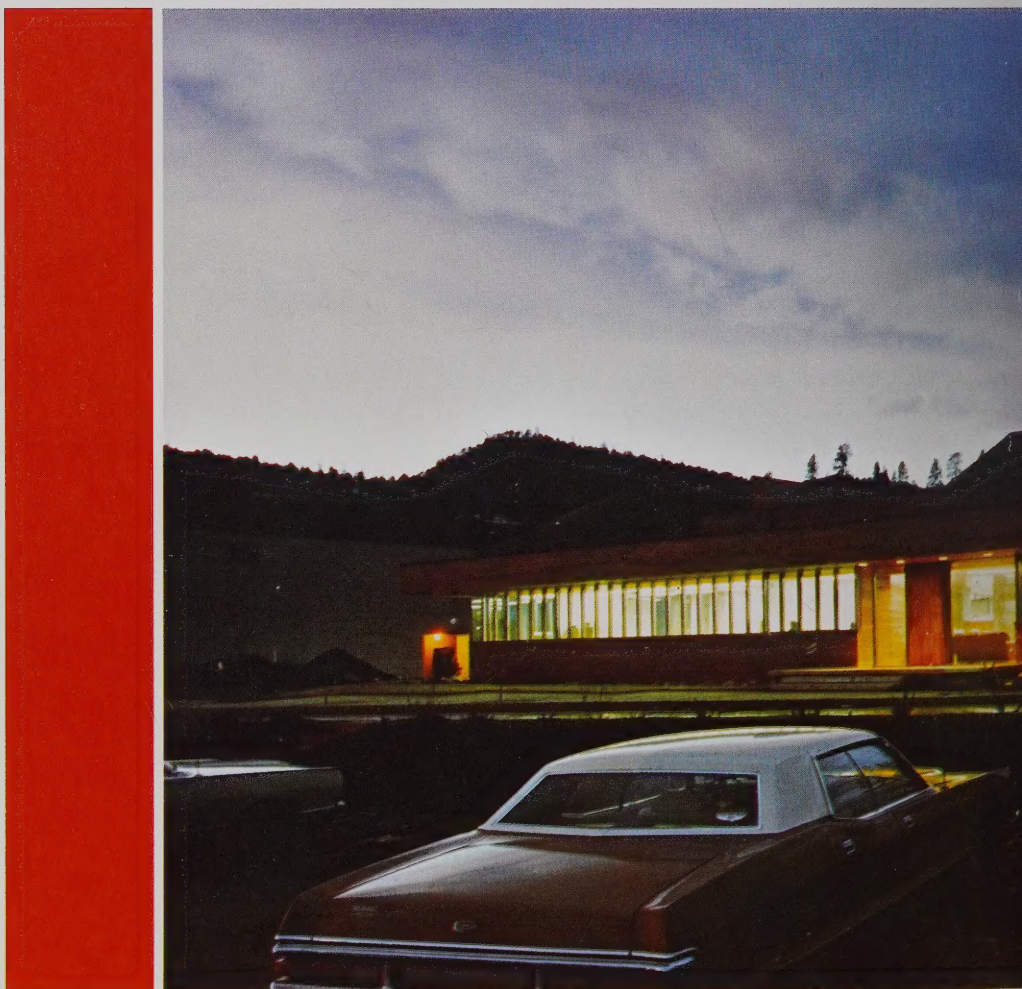
ALPHONSE MEULLER
Vice-President Manufacturing

HERBERT LEWIS ANCRUM
Secretary-Treasurer

Head Office

2576 Highway 97 North
Kelowna, B.C.

*The modern, well designed Head Office
complex creates a pleasant, relaxed work-
ing atmosphere.*



Highlights of year



	1973	1972
Sales	\$20,181,364	\$13,704,608
Net income	\$ 687,712	\$ 450,068

NET INCOME PER SHARE

Before extraordinary income and expense	\$.98	\$.74
After extraordinary income and expense	\$1.14	\$.83
Weighted average number of shares — o/s	603,100	539,873
Total assets	\$12,109,484	\$ 7,489,317
Long term debt	\$ 1,239,418	\$ 990,310
Shareholders' equity	\$ 4,588,428	\$ 2,471,833
Book value per share	\$5.46	\$4.57

Homco Industries Ltd. manufactures, sells and transports single wide and double wide mobile homes. Three manufacturing plants in Canada supply sales lots across Canada with the ever increasing demand for quality homes.

Directors' report to the shareholders:



Homco Directors and Officers (from left to right): Abraham Berday, George Hill, William Powell, Carl Johnson, Herbert Ancrum, Percy Davis, John McCleery and Alphonse Mueller. (Don Ross not present.)

We are pleased to submit our annual report for the fiscal year ending December 30th, 1973; our first annual report as a public company.

Many exciting things happened in your Company during the past year. Our public underwriting was successfully completed in October; a new Head Office and Product Development Centre complex was completed and the Company's Head Office personnel moved into the new facility in October; and the Pembroke plant, the largest of our three manufacturing facilities, was successfully brought on stream early in the year.

For the mobile home business in Canada as a whole, 1973 was an eventful year—particularly for Homco Industries. Shipments of domestic production in Canada rose to 25,636 from 20,314, a rather dramatic increase of 26 per cent over 1972.

Shipments of mobile homes from Homco Industries for the year were 1,548 mobile homes as compared to 1,082 shipments for the previous year 1972, an increase of 43 per cent. Homco's ability to increase market penetration from 5.3 per cent to 6 per cent during 1973 is most gratifying and indicates a pattern of continued growth compared to that of the industry as a whole. Sales increased to \$20,181,364 from \$13,704,608, an increase of 47 per cent; and profits showed a corresponding and more significant increase to \$687,712 from \$450,068, an increase of 53 per cent.

The Pembroke, Ontario plant was completed early this past year with the first production coming off the line in late February. As is normal with a new manufacturing facility, many problems were encountered in start-up and bringing production to the desired level. The plant, while operating at a loss for the fiscal year 1973, has increased production and efficiency considerably since June of last year. Our Pembroke management team is now doing a satisfactory job, and we expect the plant to contribute significantly to profits in 1974.

Productivity continued to exceed that of prior years in the Estevan, Saskatchewan plant, resulting in increased sales and profits.

The Kelowna, British Columbia plant operated at capacity for the full year and had a good year, both in production and sales. Our biggest single problem in the Manufacturing Division during the past year was the ever increasing cost of raw materials. For the most part, we were able to keep abreast of these price fluctuations and were able to compensate for these increases by our own modest and timely price increases from time to time.

Our Retail Division, comprising of 14 retail lots throughout Western Canada, had a buoyant year in sales and profits. This division marketed 854 homes at the retail level, compared to 700 homes marketed in 1972. The profits generated at the retail level were consistent with the increase in business. This division contributed significantly to your Company's profits as well as to the marketing stability of the western manufacturing plants.

The Company had planned to build a mobile home park in Surrey, British Columbia and had acquired approximately 29 acres of land for the purpose of building this park. It was decided by the Directors in the latter part of 1973 that the Company should not now complete the proposed mobile home park de-

velopment in Surrey due to the large amount of capital required for such development. As a result of this decision, this land was disposed of late in 1973, with a resultant after tax profit of \$95,212. The Board of Directors have deemed it inadvisable to enter into the development of mobile home parks in a major way.

The Company's Head Office personnel were moved from Estevan, Saskatchewan to Kelowna, British Columbia in October last year. The Head Office consists of 5,400 square feet which is able to accommodate a staff of up to fifty persons. The Product Development Centre of 8,000 square feet was erected adjacent to the Head Office building. This move has allowed us to bring our executive and accounting division, as well as our engineering division, under one roof for the first time. It is anticipated that this move will enhance the operating efficiency of the company. The new Product Development Centre will also enable us to devote more time and energy to new product design and development. This will be a big plus factor in your Company's future growth.

Your management expects the mobile home business in Canada to become an even larger factor in Canadian housing. We have plans to remain a part of that growth by expanding production in our existing facilities. We are also considering a new manufacturing facility to be built in Alberta. This plant is being designed to produce double wide mobile homes of up to 1,500 square feet. This type of home is capturing an increasing share of the housing market, and we expect that this double wide manufacturing facility will be able to produce on a continuing basis to maximum capacity. The plant is also designed to accommodate the production of single wide mobile homes if necessary, and will hopefully be completed and starting production by the end of this year.

The Company is presently negotiating the purchase of a relatively small cabinet manufacturing plant in the British Columbia interior. This acquisition, if made, will allow the company to produce a better quality cabinet and should add to the efficiency of our own cabinet department in addition to contributing to profits through presently established marketing outlets.

We plan to add to our retail facilities during 1974. Three to five additional retail lots in Western Canada are presently under consideration and should be on stream by late Spring of this year.

The Directors, at the meeting of March 8th, 1974, voted a five cents per share dividend to be paid April 15th, 1974 to those registered shareholders of record as of March 22nd, 1974. The Directors also made the decision to review the payment of dividends on a quarterly basis.

Our special thanks is extended to our approximately 600 employees. They have contributed significantly to your Company's success.

We are entering 1974 with enthusiasm. Mobile homes are fast becoming a more accepted way of life for a greater number of Canadians. We are proud to be associated with this growing industry and expect that the industry will continue to take an even greater share of the Canadian total housing market in coming years.

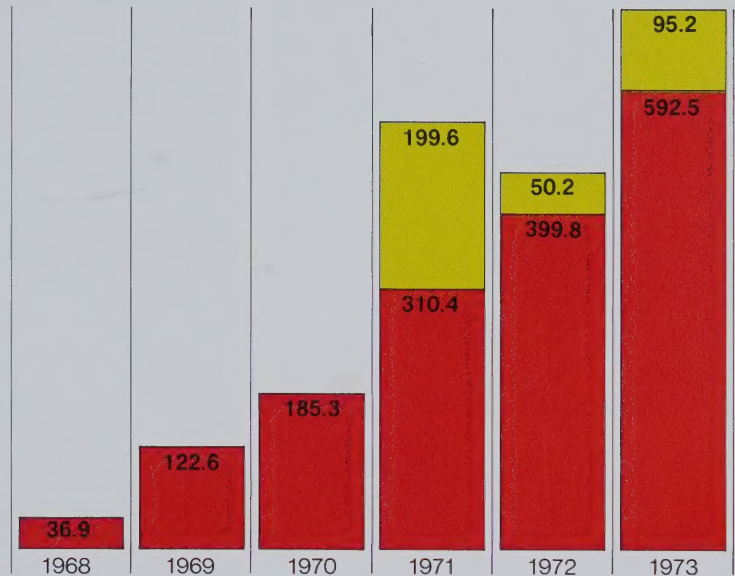
We wish to express our sincere thanks to all of our many shareholders for their interest and co-operation this past year. Homco looks forward to continued success in the years ahead.

On behalf of the Board of Directors,

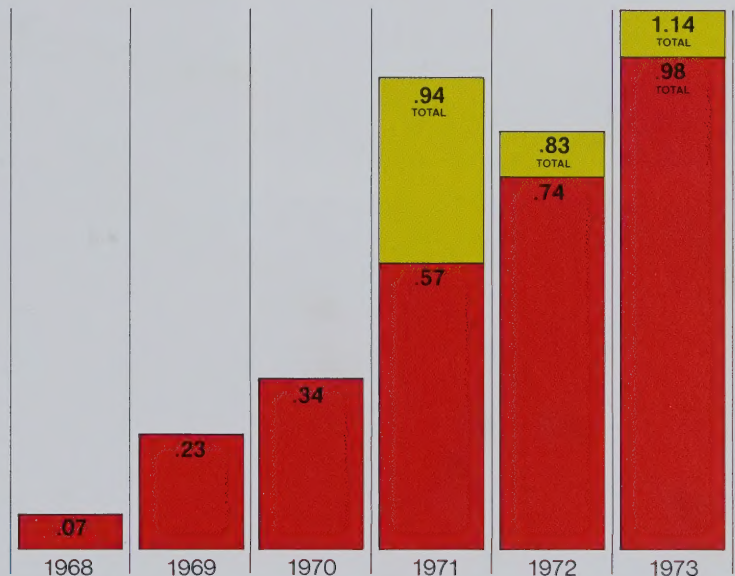
CARL D. JOHNSON
President

Kelowna, B.C., March 22, 1974.

COMPARATIVE INCOME (thousands of dollars)



COMPARATIVE INCOME PER SHARE (dollars cents)



■ Before extraordinary income — weighted
■ After extraordinary income — weighted

Production

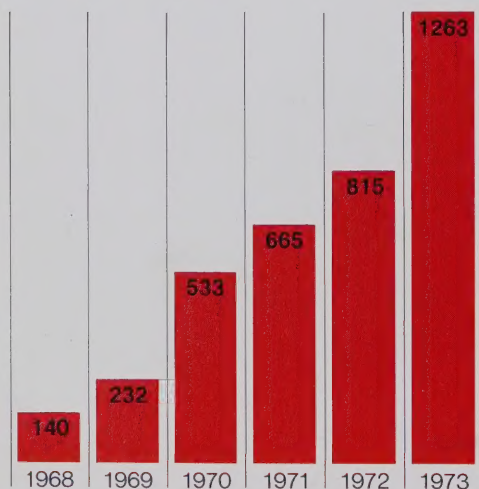
Homco Mobile Homes are manufactured at three factories (Estevan, Sask.; Kelowna, B.C.; and Pembroke, Ont.) located to strategically serve the country's expanding demand for mobile homes. A fourth facility is being planned in Camrose, Alberta and will be operating early in 1975.

All homes are built on an assembly line basis with materials being supplied by our own sub assembly facilities and outside suppliers. These homes are truly manufactured, the labour is specialized; like components are used wherever possible; and specific models are scheduled in runs. Often we build in excess of 30 houses of one model at a time, yet our homes continue to demonstrate the craftsmanship to which we attribute much of our success and of which our workers and managers are justifiably proud.

Our homes provide the lasting value expected in today's market place because they are all built to the Canadian Standards Association's exacting Z240 specifications. These set performance, soundness and safety levels for virtually every aspect of the mobile home. We are innovators in manufacturing technique and design, implementing a true monocoque construction system based on sprayed on urethane insulation; this results in an extremely strong home bound together in one complete unit.

PRODUCTION

(thousands of square feet)





1. An uncluttered exterior of easy to maintain materials is a major attraction in a Homco home.
2. Vacuum formed vinyl cabinets are unique to Homco.
3. Aluminum framed windows and storms are used for easy maintenance.
4. Continuous floor coverings help make mobile living care-free.
5. Our spacious factories permit assembly line production techniques.
6. Exclusive to Homco, foamed in place urethane insulation provides superior insulation and a completely sealed unit.
7. A well staffed drafting and design department helps keep us leaders in mobile home development.



Sales

Our Retail and Manufacturing Divisions maintain separate sales forces and facilities to aggressively sell mobile homes in the markets they serve.

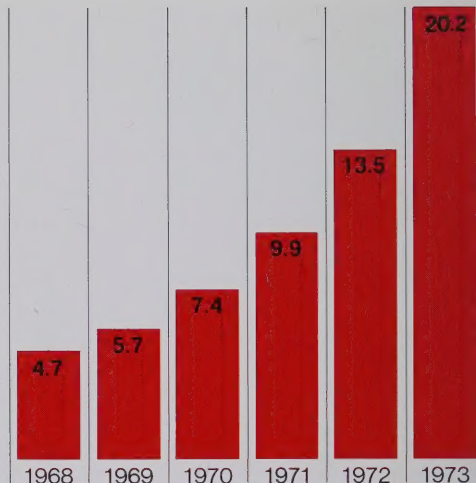
A sales manager is part of the management team of each factory and is responsible for the marketing aspect of the factory's operations. In the Western provinces our factories serve both Company owned dealers and independent dealers. In the East our Pembroke factory sells only to independent dealers with representation in all provinces and particular strength in the Maritimes.

We currently operate 14 Company owned retail sales lots in Saskatchewan, Alberta and British Columbia under the names of Commonwealth Mobile Homes, Riverside Mobile Homes and Lakewood Trailer Sales Ltd.

Each lot markets at least two of our product lines and in some cases homes which are supplied by Commodore Corporation. The lots are complete sales centres capable of providing all the customer's mobile living needs including home delivery, set up and after sale service.

The dealer is our prime agent in carrying out the terms of our warranty and all of our dealers realize the value of after sale service. All dealers selling our products maintain a well staffed and well trained service department. Each factory has a service department capable of handling those requests for service that the dealer cannot respond to. Over the years we have developed a reputation for servicing what we sell; a reputation that means a lot of satisfied customers for Homco Industries Ltd.

TOTAL SALES
(thousands of dollars)



1. A kitchen to inspire every culinary artist.
2. Spacious, well designed master bedrooms provide ample closet and storage area.
3. Prompt and efficient after sale service has given us a reputation we are proud of.
4. Carefree aluminum siding helps make this attractive low-cost Statesman model one of the best housing buys on the market.
5. A decorative fireplace and warm colonial decor have made this a very popular home.



4



2



3



5

1. There is a family room/entertainment centre in our 6424 Diplomat double wide.
2. Double wide mobile homes are increasingly popular and ours come in plans of up to 1,400 square feet.
3. Relax—enjoy companionship in one of our gracious living rooms.



1



2



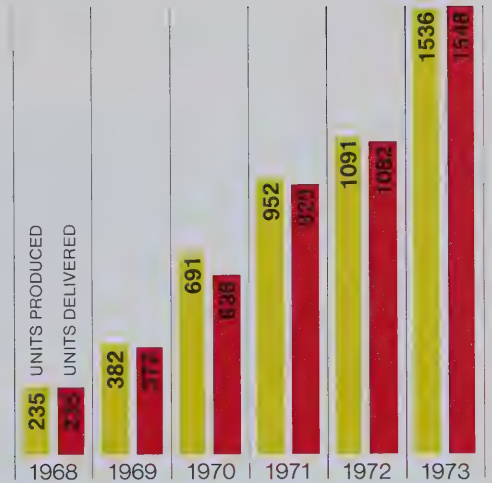
3

We have a transportation capability that enables us to deliver a mobile home virtually anywhere in Canada.

A fleet of trucks maintained at various locations across the country, coupled with the services of independent haulers as needed enabled us to move over 1,500 homes in 1973.

We are now developing a capability of transporting some of our raw material components and sub assemblies for our manufacturing operations. We have a modest fleet of two trailers which we will expand as needed. Movement of these trailers is provided by an independent contractor, and since starting in August 1973, they have logged over 140,000 miles.

UNITS PRODUCED/UNITS DELIVERED





Consolidated statement of income and retained earnings

Year ended December 30, 1973

	1973	1972
Sales	\$19,794,407	\$13,506,019
Other income	386,957	198,589
	<u>20,181,364</u>	<u>13,704,608</u>
Cost of sales and operating expenses	16,389,169	11,276,888
Selling and administrative expenses	2,782,023	1,674,230
	<u>19,171,192</u>	<u>12,951,118</u>
Net income before income taxes and extraordinary item	1,010,172	753,490
Income taxes	417,672	353,654
Net income before extraordinary item	<u>592,500</u>	<u>399,836</u>
Extraordinary item		
Gain on disposal of land, net of income taxes of \$32,590; 1972 – Nil	95,212	50,232
Net income (Note 10)	<u>687,712</u>	<u>450,068</u>
Retained earnings, beginning of year	1,201,076	836,989
	<u>1,888,788</u>	<u>1,287,057</u>
Tax-paid dividends paid including tax thereon	131,679	85,981
Retained earnings, end of year	<u>\$ 1,757,109</u>	<u>\$ 1,201,076</u>

The accompanying notes form part of this statement.



Consolidated balance sheet

December 30, 1973

Assets

	1973	1972
Current		
Receivables		
Trade	\$ 2,243,004	\$ 599,538
Federal Government grants (Note 2)	—	245,216
Agreement for sale receivable within one year	100,000	—
Inventories (Note 3)	5,522,059	3,588,516
Prepaid expenses	86,441	58,408
	<u>7,951,504</u>	<u>4,491,678</u>
Notes and agreements for sale receivable, less amounts receivable within one year	545,480	57,860
Federal Government grants receivable, less amounts receivable within one year (Note 2)	70,316	68,535
Cash surrender value of life insurance policies	20,716	19,057
Land, buildings and equipment (Note 4)	3,334,603	2,682,822
Deferred start-up costs (Note 5)	186,865	169,365

On Behalf of the Board:

 Director
 Director

\$12,109,484

\$ 7,489,317

The accompanying notes form part of this statement.

Liabilities

	1973	1972
Current		
Bank overdraft and operating loans (<i>Note 6</i>)	\$ 1,334,256	\$ 496,569
Payables and accruals		
Notes payable—new units (secured)	1,907,378	1,222,926
Trade	2,061,661	1,692,236
Long-term debt payable within one year	270,794	111,073
Income and other taxes payable	293,038	226,513
	<u>5,867,127</u>	<u>3,749,317</u>
Deferred income taxes	414,511	277,857
Long-term debt, less amounts payable within one year (<i>Note 7</i>)	1,239,418	990,310
	<u>7,521,056</u>	<u>5,017,484</u>
Contingent (<i>Note 8</i>)		

Shareholders' Equity

Capital stock (<i>Note 9</i>)	2,322,360	770,705
Contributed surplus	508,959	500,052
Retained earnings	1,757,109	1,201,076
	<u>4,588,428</u>	<u>2,471,833</u>
	<u>\$12,109,484</u>	<u>\$ 7,489,317</u>

Consolidated statement of source and application of funds

Year ended December 30, 1973

	1973	1972
Source		
Operations		
Net income before extraordinary item	\$ 592,500	\$ 399,836
Non-cash charges		
Depreciation and amortization	284,948	136,517
Deferred income taxes	104,064	204,594
	<u>981,512</u>	<u>740,947</u>
Proceeds from		
Sale of shares	1,551,655	346,395
Federal Government grants, excluding non-current amounts	7,126	251,994
Long-term debt—net	249,108	458,736
Sale of land	645,480	—
	<u>3,434,881</u>	<u>1,798,072</u>
Application		
Additions to		
Land, buildings and equipment—net	1,407,092	1,355,317
Deferred start-up costs	64,815	167,638
Increase in notes receivable	487,620	52,736
Increase in cash surrender value of life insurance	1,659	1,699
Payment of tax-paid dividends and tax thereon	131,679	85,981
	<u>2,092,865</u>	<u>1,663,371</u>
Increase in working capital	1,342,016	134,701
Working capital, beginning of year	742,361	607,660
Working capital, end of year	<u>\$ 2,084,377</u>	<u>\$ 742,361</u>

The accompanying notes form part of this statement.

Notes to consolidated financial statements

December 30, 1973

1. Principles of consolidation

The consolidated financial statements include the accounts of Homco Industries Ltd. and its wholly-owned subsidiary company Lakewood Trailer Sales Ltd. The recorded acquisition cost of the shares of the subsidiary equalled its net book value at the date of acquisition.

2. Federal government grants

The company has qualified for area development incentive grants with respect to the establishment of its Pembroke, Ontario plant and the expansion of its Estevan, Saskatchewan plant. The estimated amount of the grant entitlement accrued has been recorded in the accounts. The proceeds will be received over a period of time dependent upon the company continuing to satisfy the requirements of the legislation relating to the grants.

3. Inventories at the lower of cost and net realizable value

1973 1972

New mobile homes and residential

properties	\$2,876,227	\$2,031,062
Used units	273,671	362,096
Repair parts and furniture	176,340	132,957
Raw materials	2,034,390	993,068
Work in progress	161,431	69,333
	<u>\$5,522,059</u>	<u>\$3,588,516</u>

4. Land, buildings and equipment

1973 1972
Cost Accumulated Net book Value Net book Value

Land and land improvements \$	842,982	\$ 45,179	\$ 797,803	\$ 895,621
Buildings and leasehold improvements	2,065,435	154,491	1,910,944	1,503,015
Plant equipment	595,113	290,172	304,941	174,668
Automotive equipment	378,604	124,648	253,956	80,463
Office equipment	85,545	18,586	66,959	29,055
	<u>\$3,967,679</u>	<u>\$633,076</u>	<u>\$3,334,603</u>	<u>\$2,682,822</u>

Depreciation has been recorded in the accounts of the company on the straight line basis at the following rates:

Land improvements, leasehold improvements, sales lot equipment and office equipment	10% per annum
Buildings (plant)	3½ % per annum
Buildings (sales offices)	5% per annum
Plant equipment (major items) and automotive equipment	20% per annum
Plant equipment (minor items)	33⅓ % per annum

5. Deferred start-up costs

Costs that were directly attributable to, and incurred prior to the commencement of production at the plants at Kelowna, British Columbia and Pembroke, Ontario and the

re-location and organization of Company Head Office at Kelowna, British Columbia, which are not related to the acquisition of land, buildings and equipment have been deferred. It is the policy of the company to amortize such costs by charges to income on a straight line basis over the three year period following commencement of operations.

6. Bank operating loans

The bank operating loans are secured by a general assignment of book debts, by the assignment of inventories as provided under section 88 of the Bank Act and by the assignment of certain life insurance policies.

7. Long-term debt

	1973	1972
Mortgages and agreements payable at interest rates from 7% to 9%	\$ 410,212	\$ 631,383
7% capital bank loans—secured	—	470,000
Debenture and loan agreement at prime plus 2%, payable in quarterly instalments of \$50,000 until due in 1980—secured	1,100,000	—
	<u>1,510,212</u>	<u>1,101,383</u>
Deduct principal instalments payable within one year	270,794	111,073
	<u>\$1,239,418</u>	<u>\$ 990,310</u>

8. Contingent liabilities

The companies are contingently liable as endorser of customers' notes in the amount of \$11,138,249; 1972 \$10,376,450. During each of the five years ended December 30, 1973 the companies have not incurred any net expense resulting from these endorsements.

9. Capital stock

	Number of Shares	Amount
Authorized 1,000,000 common shares without nominal or par value		
Issued and outstanding, December 30, 1972	540,600	\$ 770,705
Proceeds of public issue net of underwriting commissions and issue expenses of \$173,345	300,000	1,551,655
Issued and outstanding, December 30, 1973	<u>840,600</u>	<u>\$2,322,360</u>

10. Earnings per share

	1973	1972
Weighted monthly average—603,100 shares outstanding; 1972—539,873		
—earnings before extraordinary items	\$.98	\$.74
—net earnings for the year	<u>\$1.14</u>	<u>\$.83</u>

11. Remuneration of Directors

The total remuneration of directors for 1973, including salaries of officers who are also directors, amounted to \$80,802.

Auditors' report

TO THE SHAREHOLDERS OF HOMCO INDUSTRIES LTD.

We have examined the consolidated balance sheet of Homco Industries Ltd. as at December 30, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

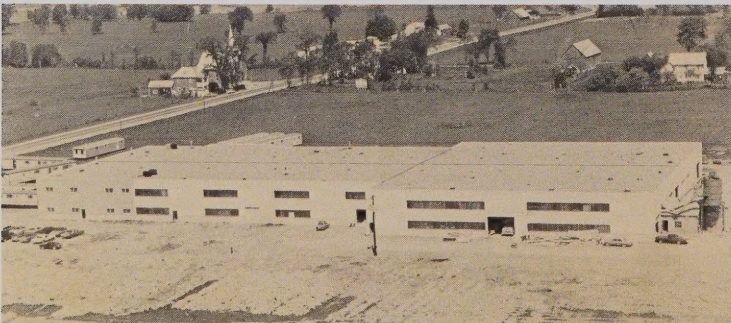
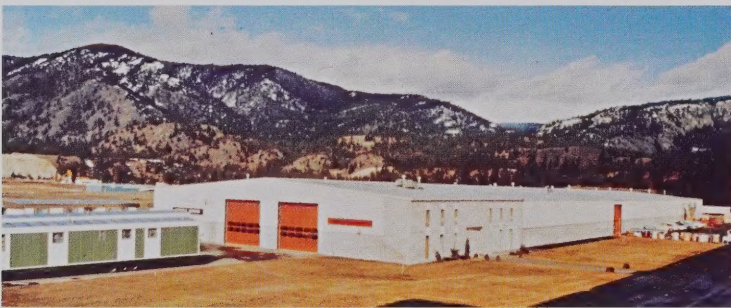
Vancouver, B.C.
March 1, 1974.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 30, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WINSPEAR HIGGINS STEVENSON & CO.
Chartered Accountants



Our three factories: Estevan, Sask.; Kelowna, B.C. and Pembroke, Ont. manufactured 1548 homes in 1973 which accounted for 6% of the Canadian mobile home market.



Canadian mobile home shipment

	1973	1972	1971
Domestic	25,636	20,314	15,019
Estimated Imports	<u>3,591</u>	<u>4,695</u>	<u>3,886</u>
Total Mobile Homes	<u>29,227</u>	<u>25,009</u>	<u>18,905</u>

Homco participation

Total Units	1,548	1,082	929
% of Total Domestic Units	6.0	5.3	6.2

Auditors

Winspear Higgins Stevenson & Co.,
1505 Robson Street,
Vancouver, B.C.

Transfer Agents and Registrar

The Royal Trust Co.,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Bankers

The Bank of Montreal
The Mercantile Bank of Canada

Stock Listings

Toronto Stock Exchange
Montreal and
Canadian Stock Exchange

1970	1969	1968	1967	1966	1965	1964	1963
9,324	9,151	6,302	4,362	3,215	3,395	2,152	1,562
<u>2,948</u>	<u>3,602</u>	<u>2,848</u>	<u>2,284</u>	<u>1,473</u>	<u>1,784</u>	<u>1,960</u>	<u>1,513</u>
<u>12,272</u>	<u>12,753</u>	<u>9,150</u>	<u>6,646</u>	<u>4,688</u>	<u>5,179</u>	<u>4,112</u>	<u>3,075</u>
636	372	235	—	—	—	—	—
6.8	4.1	3.7	—	—	—	—	—

